A Background Summary

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EXPANDING WORLD TRADE: UNITED STATES POLICY AND PROGRAM

OFFICE OF PUBLIC AFFAIRS · DEPARTMENT OF STATE · WASHINGTON, D.C.

THE OBJECTIVE

The foreign-trade policy of the United States is aimed at expansion of world trade on a multilateral and mutually advantageous basis. In furthering this policy, the United States has long been cooperating with other countries in a program to eliminate discriminations in international trading and to reduce or eliminate excessive and unnecessary governmental trade barriers and restrictions, such as high tariffs, quotas, and foreign-exchange controls. This program is designed to help (1) increase production, exchange, and use of goods and services; (2) increase employment; and (3) raise living standards in all countries. It calls for a policy of consultation with other governments in order to reach peaceful settlements of trade difficulties, rather than a policy of unilateral action without regard to effects on other countries. Our trade policy is an integral part of our total foreign policy, which aims at establishing, throughout the world, conditions conducive to peace.

THE ECONOMIC FOREIGN POLICY PROGRAM

In carrying out its policy, the United States, largely through cooperation with other nations, has undertaken many measures that are parallel in purpose, coordinated, and closely related:

1. Since 1934 this country has carried on a well-organized program for reciprocal reduction of tariffs and other barriers to trade. We have concluded reciprocal trade agreements with a total of 48 foreign countries. Together, the United States and these countries account for more than four-fifths of the world's international commerce.

2. The United States is also negotiating a series of treaties of friendship, commerce, and navigation. Since world War II, such treaties have been negotiated and signed with China, Italy, Uruguay, and Ireland. The treaties with China, Italy, and Ireland have been approved by the United States Senate and have gone into effect. That with Uruguay has been approved by the Senate and awaits approval by the Uruguayan General Assembly.

3. On April 3, 1948, the United States Congress passed the Foreign Assistance Act, authorizing a large-scale program to help certain European and Far Eastern countries to recover from the economic devastation of war.

4. Within the United Nations, the United States has taken a leading part in establishing the Food and Agriculture Organization, the International Monetary Fund, and the International Bank for Reconstruction and Development. All these specialized international agencies are designed to perform functions directly concerned with expansion of world trade.

5. The United States has started to put into action the President's Point Four Program to help the peoples of underdeveloped nations help themselves. This program is designed to bring about a rise in production and purchasing power among these countries--both factors which will contribute to increased world trade.

ECONOMIC CONDITIONS AFTER WORLD WAR I

After World War I, especially during the depression of the early thirties, practically all governments applied rigid foreign-trade controls. Most of them were designed to restrict imports, but others tended to force domestic products into foreign markets regardless of supply and demand requirements or the effects on foreign countries. Some nations applied rigid controls because they feared another war. Some held mistaken ideas of nationalistic self-sufficiency and prosperity. A few were deliberately bent on economic and political aggression and domination.

Nations used such weapons of trade warfare as exchange restrictions, bilateral and discriminatory trade-balancing agreements, trade preferences, excessively high import duties, and export subsidies. The effect was to bring about the collapse of a wide segment of international commerce and to intensify and prolong the world-wide depression.

From the end of World War I to about 1928, the United States Government and private American investors made extensive foreign loans. Meanwhile, in 1921 and 1922, American tariffs were raised, finally reaching record levels in the Hawley-Smoot Tariff Act of 1930. Since these high import duties made it difficult to sell foreign goods and services in the United States, many foreign borrowers were unable to earn American dollars in order to repay their debts, and would-be foreign customers were unable to buy American goods.

The value of United States imports dropped from $4, 399, 000, 000 in 1929 to $1, 323, 000, 000 in 1932. This drop deprived foreign countries of $3, 076, 000, 000 with which they might otherwise have bought United States goods. The reduction in United States imports was a basic factor in spreading the depression in other countries. In the same period, United States sales abroad declined by an even greater amount -- $3, 630, 000, 000 -- from $5, 241, 000, 000 in 1929 to $1, 611, 000, 000 in 1932. American producers of automobiles, machinery, petroleum products, pork, wheat, cotton, tobacco, fruit, and many other export products were hard hit by the loss of their foreign markets. This meant that many American export industries were shut down, and their workers joined the bread lines, while crop surpluses accumulated and farmers suffered too. Lessened income along the line intensified the depression at home and abroad.

THE RECIPROCAL TRADE AGREEMENTS PROGRAM

In the United States it was recognized in the early 1930's that the first step toward restoring foreign trade and its benefits to our economy was to break down excessive governmental barriers to international commerce and to remove trade discriminations. It was also recognized that this could be most effectively done on a reciprocal basis, as "trade is a two-way street," and the American economy needs imports as well as exports for maximum prosperity.

In 1934, therefore, Congress passed the Reciprocal Trade Agreements Act, giving the President authority to negotiate reciprocal trade agreements with foreign countries. The duration of this authority as given to the President in the act of 1934 was limited to three years from June 12, 1934. In 1937, Congress extended the authority for another 3-year period; in 1940 for 3 years; in 1943 for 2 years; in 1945 for 3 years; in 1948 to June 30, 1949; and in 1949 to June 12, 1951.

Under the Trade Agreements Act, the President can reduce United States tariffs or other import restrictions on goods from abroad in return for reductions in their barriers against American goods. The act requires the President to obtain advice and assistance from certain United States Government agencies in formulating the provisions of the agreements and also requires that interested persons shall have opportunity, both before and after negotiation, to present information and views.

By Executive order, the President has established an interdepartmental organization which has the functions of advising him in the formulation of trade agreements and of receiving and analyzing views and information presented by interested persons in connection with trade-agreement matters. This organization includes a member of the United States Tariff Commission, representatives designated by the Secretaries of State, Agriculture, Labor, Commerce, Defense, Interior, and the Treasury, and a representative of the Administrator of the Economic Cooperation Administration.

WHAT A TRADE AGREEMENT IS

Trade agreements accomplish two things: (1) they provide for specified tariff and other concessions, by each party, on articles that are listed in the agreements themselves; and (2) through their "general provisions" they set forth the treatment, aside from tariff rates, which each nation will give to its trade with the other country or countries party to the agreement. These general provisions are primarily designed to prevent non-tariff restrictive measures from offsetting the advantages obtained through tariff concessions.

The general provisions include various commitments, such as prohibitions or limitations on the use of quantitative restrictions (quotas) and trade discriminations. Each party to a trade agreement undertakes to give to the trade and goods of the other party, or parties, treatment no less favorable than that which it gives to the trade and goods of any third country (the "most-favored-nation principle"). Each party agrees not to discriminate against imported goods in matters of internal taxation, import quotas, exchange restrictions, and other regulations of trade. Among the various other provisions included is the "escape clause," which is a part of all the agreements negotiated since 1943. Under this clause a party to the agreement may modify or withdraw a specific concession if it finds that, as a result of unforeseen circumstances, imports of the particular article concerned have increased to such an extent or under such circumstances as to cause or threaten serious injury to one of its own industries. If the escape clause is used, the other party or parties to the agreement may modify their own concessions to a corresponding extent. The agreements do not prevent any country from taking measures to meet requirements of national security, health protection, and other special situations.

TRADE EXPANSION BETWEEN WORLD WARS

Before World War II and the events leading up to it had wholly dislocated world commerce, the trade-agreements program had contributed to a significant expansion of United States foreign trade, not only in general, but particularly with those nations with which agreements had been concluded. While other recovery factors played important parts, the reduction of trade barriers between the United States and other nations, through the trade-agreements program, contributed greatly to these commercial gains.

AFTER WORLD WAR II

After World War II practically every country in the world found it necessary to maintain or even intensify its drastic wartime controls over its economy--including its foreign trade. At the end of the war the economic situation of most countries was chaotic. Agriculture and industry in many areas of great importance to United States foreign trade were physically devastated, and many major industries had been wholly converted to war production. The capital structures of some countries had been destroyed, their foreign assets liquidated, and their manpower reduced. Many of their established foreign markets and foreign sources of supply had disappeared.

Throughout most of the world there was a drastic shortage of goods and of ability to produce goods--either for home consumption or for exchange in international trade. In particular, most foreign countries lacked goods which they could trade for things obtainable only from the United States. High prices both here and abroad and the extremely unstable and inconvertible currencies of many countries also added to the difficulties of carrying on foreign trade.

Nearly every nation rigidly controlled its foreign trade in order to make sure that its inadequate foreign purchasing power would be used for only the most essential imports. Nations resorted to import quotas, controls of foreign exchange, import and export licensing systems, and discriminatory bilateral clearing and barter arrangements. This maze of trade restrictions and limitations blocked normal channels of trade and ignored sound economic factors.

UNITED STATES FOREIGN TRADE OUT OF BALANCE

One aspect of this situation had especially serious consequences for the United States economy and created a large deficit between the value of United States exports and the value of foreign goods and services received in return. In the postwar period the United States made heavy contributions, through both public and private agencies, in direct relief, loans, and grants to assist foreign countries in regaining their capacity to produce. American goods exported under the various relief and recovery programs were, to all practical purposes, being given away. Individual American producers of these goods were paid for them, but the American economy as a whole did not receive goods or services in return. This burden obviously cannot be borne indefinitely by American taxpayers and contributors.

By 1948 and 1949, foreign countries, through their own efforts and with the assistance of the United States, had in large part regained their ability to produce goods. But without the opportunity to market the things they did not need for home consumption--that is, to exchange their surpluses for foreign products which they could not produce for themselves--the productive capacity alone was not sufficient to solve their problem.

In 1948 and 1949 there were deficits of more than 5 billion dollars a year between the value of United States goods sent abroad and the value of goods and services received by the United States in return. In effect, the United States was "going into the red" at the rate of 5 billion dollars a year.

There are two possible methods of eliminating this deficit without charging it to the United States taxpayer: (1) to reduce United States exports to the level of imports or (2) to increase imports to the level of exports. The first method would involve reducing United States production and employment in important export industries which depend on foreign markets to maintain maximum operation. Reducing operations in such industries would reduce the buying power of their workers in the domestic market, and thus contribute to a spiral recession in the American national economy. On the other hand, increasing United States imports of goods and services toward the level of United States exports would enable foreign countries to pay for the goods which they want to buy in the United States and which American producers would like to sell abroad, thus keeping American export industries operating at maximum levels without extra cost to American taxpayers.

Reducing unnecessary United States tariffs facilitates the increase of imports needed to achieve this objective. In short, it helps would-be foreign customers to earn the United States dollars which they must have in order to pay for more of the United States goods which they want to buy and which Americans want to sell. As they earn more dollars it becomes possible for foreign governments progressively to relax and eventually to abandon the network of restrictions, limitations, and discriminations which they have imposed on their imports from this country.

The reciprocal trade-agreements program is the mechanism which the United States uses in bargaining with foreign countries to assist in remedying the unbalance between our exports and our imports, and to move in the direction of the highest possible levels of sound and remunerative foreign trade in both directions.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

In 1945 the United States Government published its Proposals for Expansion of World Trade and Employment and in 1946 its Suggested Charter for a Proposed International Trade Organization. It also invited a number of foreign countries to negotiate for tariff reductions.

Taking up the United States proposal, the Economic and Social Council of the United Nations in February 1946 appointed a Preparatory Committee of 19 nations to prepare for a United Nations Conference on Trade and Employment for the purpose of establishing an International Trade Organization. The Union of Soviet Socialist Republics, although appointed on the Preparatory Committee, did not participate in the work of the Committee or in the accompanying tariff negotiations.

Not only did the Preparatory Committee, meeting at Geneva, Switzerland, prepare a draft of a charter for such an organization, but the member governments negotiated among themselves for reciprocal reduction of tariff and other barriers to trade. The United States participated in these negotiations under the authority of the Reciprocal Trade Agreements Act of 1934 as amended and extended. This was the first time the United States had taken part in negotiations aimed at an agreement including so many countries, but the desperate postwar economic situation clearly demanded action more expeditious and far-reaching than could be obtained through bilateral tariff bargaining.

The result of the negotiations was the conclusion, on October 30, 1947, of the General Agreement on Tariffs and Trade, the most comprehensive action ever taken toward reciprocal reduction of barriers to world trade. The General Agreement was signed by 23 countries (China signed the agreement but withdrew from it on May 6, 1950). The Netherlands negotiated at Geneva on behalf of the Netherlands East Indies, which later, as the Republic of Indonesia, became a party to the agreement as an independent country.

The General Agreement covered more than 45,000 items, accounting for two-thirds of the import trade of the signatory countries--about one-half of all the import trade of the world. Under it, all concessions granted by each country apply to imports from all the other contracting parties. Concessions include complete elimination of certain specified duties and tariff preferences, reduction of other tariffs and preferences, bindings of specified duties against increase, and bindings of duty-free treatment.

The general provisions of the agreement are comparable to those in previous bilateral agreements negotiated by the United States, except that they are adapted to the special conditions of the postwar world, and they apply to an agreement among a number of countries instead of between two countries. They are designed to safeguard the advantages obtained through tariff concessions and to eliminate or reduce discrimination in trade among nations.

In the fall of 1948 the representatives of the contracting parties to the General Agreement invited other countries to take part in a new set of negotiations looking toward participation of those other countries in the agreement and also toward tariff concessions among them and between them and the original contracting parties. No new concessions were to be exchanged among the 23 original signatories to the agreement.

At Annecy, France, in 1949, 10 new countries took part in the negotiations and by May 30, 1950, 9 of them had completed the necessary steps to become contracting parties to the General Agreement. On that date, the following 32 countries were contracting parties to the agreement:

Australia	Czechoslovakia	Indonesia	Norway
Belgium	Denmark	Italy	Pakistan
Brazil	Dominican Republic	Lebanon	Southern Rhodesia
Burma	Finland	Liberia	Sweden
Canada	France	Luxembourg	Syria
Ceylon	Greece	Netherlands	Union of South Africa
Chile	Haiti	New Zealand	United Kingdom
Cuba	India	Nicaragua	United States

Of the 28 countries with which the United States had concluded bilateral reciprocal trade agreements prior to 1947, 12 have since acceded to the General Agreement on Tariffs and Trade, and our bilateral agreements with them have either been terminated or superseded by the provisions of the General Agreement. The countries which have not become contracting parties to the General Agreement and with which the United States bilateral agreements are still in effect are:

Argentina	El Salvador	Iceland	Peru	Uruguay
Costa Rica	Guatemala	Iran	Switzerland	Venezuela
Ecuador	Honduras	Paraguay	Turkey	

A bilateral agreement with Czechoslovakia was concluded in 1938, suspended in 1939, and terminated in 1945; Czechoslovakia became a party to the General Agreement after the Geneva negotiations. Another bilateral agreement with Colombia was concluded in 1935 and was terminated by joint consent as of December 1, 1949. A bilateral agreement with Mexico was signed December 23, 1942, and by joint consent was terminated on December 31, 1950.

The combined results of the Geneva and Annecy negotiations have brought into the General Agreement, as of September 1, 1950, a total of 32 of the world's trading countries which, among them, carry on some four-fifths of the international commerce of the world. More than three-fourths of the exports of the United States go to the countries which are contracting parties to the General Agreement.

In 1949, after the conclusion of the Annecy negotiations, the contracting parties decided on a third set of negotiations, which opened September 28, 1950, at Torquay, England. During this third set there will be negotiations for further concessions among the present contracting parties, between the contracting parties and seven new countries, and among the new countries themselves. It is expected that three countries with which the United States now has bilateral agreements, namely Peru, Turkey, and Uruguay, will become contracting parties following the conclusion of the negotiations at Torquay.

THE EUROPEAN RECOVERY PROGRAM

Under the Foreign Assistance Act passed by Congress in 1948, the United States Government undertook large-scale programs for helping certain European countries to recover from the economic devastation of war. This again is in line with, and an integral part of, American foreign-trade policy. Only when foreign countries regain their capacity and freedom to produce goods and services, and to exchange them with other countries, can American investors hope for returns from their foreign loans and American exporters hope for remunerative foreign markets for their products.

Indication that the European countries are making great progress in increasing production is given in recent reports of the Economic Cooperation Administration. Though the program is only slightly more than half over, in the second quarter of 1950 industrial production of the participating countries was 122 percent of the 1938 level.

In steel production there has been a rise of 52 percent, in cement 58 percent, in electric power 21 percent, and in hard coal 17 percent, since the ECA began operations.

This increased production has helped in expanding trade among the countries of Western Europe and between these countries and the rest of the world.

One of the requirements which European countries must satisfy in order to receive assistance under the recovery program is that they agree to help themselves and each other, to the limit of their ability. A major field in which they are expected to act is that of reduction of tariff and other barriers to trade among themselves and with other countries, for barriers which stifle the exchange of goods prevent maximum production and employment. Western Europe is taking concrete steps forward in this field under such programs as the General Agreement on Tariffs and Trade, the European Payments Union, and some proposed customs unions.

THE PROGRAM FOR THE NEGOTIATION OF TREATIES OF FRIENDSHIP, COMMERCE, AND NAVIGATION

The basic purpose of treaties of friendship, commerce, and navigation is to promote freer channels of international economic intercourse by establishing explicit workable rules to govern the treatment accorded by one country to the persons, enterprises, capital, property, goods, and vessels of another country. The current emphasis in United States commercial treaties is upon obtaining assurances of fair treatment for American investors, which are deemed essential to the long-term objectives of Point Four, of the European Recovery Program, and of other measures for strengthening the economy of the free world. These treaties, however, also contain provisions relating to the exchange of goods which are very similar to the general provisions of the bilateral trade agreements.

Since the close of World War II, the Department of State has been seeking to expand and modernize this country's commercial treaty network. Intensive study has been given, in collaboration with other Government agencies, to the content of these treaties, and the basic proposals have been considerably improved in form and expanded in substance. Treaties have been signed with China (1946), Italy (1948), Uruguay (1949), and Ireland (1950). Treaty projects have been proposed to more than 30 other countries, and about two-thirds of these projects are in varying stages of active consideration or negotiation.

THE POINT FOUR PROGRAM

As the fourth point in his inaugural address on January 20, 1949, President Truman called for a "bold new program" of economic development through technical cooperation and capital investment to help the peoples of underdeveloped areas to help themselves. This "Point Four" Program is designed to provide a part of the advice and training in modern science and technology which these peoples need to raise their standards of living and enrich their lives. It is thus a program to expand and strengthen the international community and the free world, and will thereby be mutually beneficial to all.

Under the act passed by Congress authorizing this program, the United States is contributing to the aims of Point Four in three ways: (1) through bilateral agreements between the United States and underdeveloped countries; (2) by cooperating with and contributing to the United Nations Technical Assistance Program; and (3) through programs of American organizations and private enterprise.

The Point Four Program recognizes the fact that in cooperating with the peoples of underdeveloped areas we are also helping ourselves. As these peoples develop the skills and know-how to utilize better their natural, human, and capital resources, they are able to increase greatly their production of goods. As they produce more goods, they are able to sell more on international markets, for many of their resources are in great demand. As they sell more, they gain greater purchasing power to buy the things they need and want from all over the world. The United States and all other nations will benefit from this mutually profitable growth in international trade.

As a necessary corollary to the technical assistance program, underdeveloped areas must have more capital to develop their resources. Technical skills must be accompanied by the basic tools and equipment of production. Underdeveloped countries can themselves supply a large proportion of the necessary capital, but will need supplementary capital from other sources, including the Export-Import Bank, the International Bank, and private investors. To improve the climate for private investment from the United States and to speed the flow of capital, President Truman has asked the Congress for legislation to enable the Export-Import Bank to guarantee, against certain extraordinary non-business risks, United States private capital invested in underdeveloped areas. In addition, the series of treaties of friendship, commerce, and navigation, mentioned earlier, will provide greater investment security.

A STRENGTHENED TRADE-AGREEMENTS PROGRAM

On December 6, 1950, with the approval of the President, the State Department announced that Congress would be asked to enact legislation renewing the Trade Agreements Act and authorizing more effective United States participation in the General Agreement on Tariffs and Trade, which now is only provisionally in effect. The desired legislation would do two principal things. First, it would authorize appropriations to permit the United States to finance its participation in the work of the General Agreement, including a small permanent secretariat, on a regular basis. Second, it would make possible the application of certain provisions of the agreement which cannot be applied until certain changes have been made in our laws. As to the second point, enactment of the Customs Simplification Bill introduced in the 81st Congress would accomplish almost all of these changes and, so far as the United States is concerned, would permit the agreement to be put into effect definitively and in its entirety.

The State Department announcement of December 6 also stated that the charter for the proposed International Trade Organization would not be resubmitted to Congress. The charter has been under discussion and negotiation since 1945. The Preparatory Committee appointed by the Economic and Social Council of the United Nations in February 1946 prepared, during 1946 and 1947, a draft charter for the proposed organization. This draft included the trade code and also dealt with such matters as employment, economic advancement of underdeveloped countries, protection of foreign investments, and other subjects.

At Habana, Cuba, in 1948, representatives of 54 countries negotiated a final revision and agreed to submit this charter to their governments for approval.

It is readily understandable that approval of so detailed and comprehensive a document by so many nations with widely differing economic systems and problems was not easily forthcoming. In the United States the charter was submitted to Congress in April 1949. It was criticized by some groups for allowing too many restrictions on trade and by others for not providing for enough. Still other groups wanted no commitments in this field. Hearings on the charter were held in 1950 by the Committee on Foreign Affairs of the House of Representatives but no further action was taken.

The declining interest in the International Trade Organization since 1948 is partly due to the fact that other organizations have gone forward with many of the programs which the International Trade Organization was expected to carry out. The General Agreement on Tariffs and Trade is in provisional operation in the field of commercial policy. International aspects of employment are being dealt with by the Economic and Social Council of the United Nations. Steps toward economic betterment of underdeveloped countries are being undertaken through the International Bank for Reconstruction and Development, the Economic and Social Council, and the United States Point Four program. Commitments for the protection of foreign investments are being sought through bilateral treaties. Many of the basic ideas of the charter with respect to international agreements regarding the marketing of specific commodities have been accepted in international trade practices. Such ideas relate to the need for equal representation of producing and consuming countries in commodity agreements and to the desirability of confining the agreements to commodities which are in burdensome surplus. The International Wheat Agreement, the first of its kind, has been negotiated and put into operation. International groups are studying the possibilities for agreements dealing with rubber, tin, and sugar.

For all these reasons it has been decided that, in the light of the present world situation, the charter will not be resubmitted to the 82d Congress.

AN INTEGRATED ECONOMIC FOREIGN POLICY

All of the lines of international economic activity in which the United States is engaged lead toward the same goal, but each is designed to deal with a different aspect of the world economic problem. Each of the programs that has been described is aimed at improvement of living standards in the United States and throughout the world. In embarking on these programs, the United States Government has recognized that this country cannot be an island of prosperity and security in an unstable and impoverished world. The United States economic foreign policy is a policy of cooperation with other nations for the benefit of all, a program in which the United States has more at stake than any other nation.

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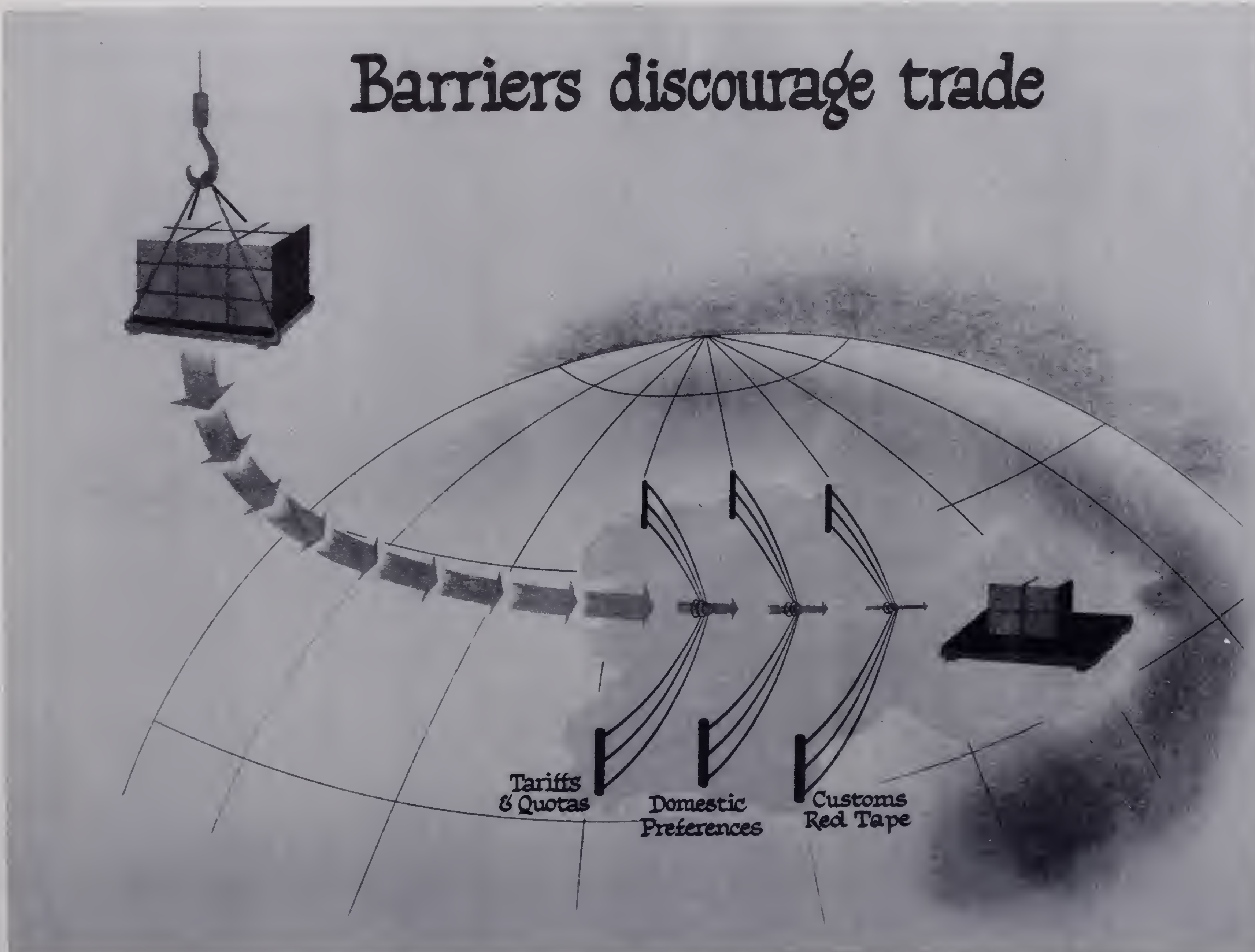
Barriers discourage trade
Tariffs & Quotas
Domestic Preferences
Customs Red Tape


Economic instability breeds political chaos